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Message Text

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C O N F I D E N T I A L STATE 040032

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C O N F I D E N T I A L ALGIERS 0373

CINCEUR FOR POLAD

E.O. 11652: GDS
TAGS: EGEN,AG
SUBJECT: US/ALGERIAN ECONOMIC RELATIONS

1. SUMMARY. WE AND THE ALGERIANS ARE, WILLY NILLY, - APPROACHING A STATE OF PARTIAL SYMBIOSIS. WE ARE GOING TO BE PARTLY DEPENDENT ON ALGERIAN ENERGY RESOURCES; ALGERIA IS GOING TO BE EVEN MORE DEPENDENT ON OUR MARKETS. AMERICAN BUSINESS IS ALREADY VERY ACTIVE HERE AND IS HOLDING SIZABLE CONTRACTS. IT WILL HOLD A GOOD DEAL MORE IF ALL ALGERIAN LNG CONTRACTS ARE IMPLEMENTED. THIS RELATIONSHIP IMPOSES RESTRAINTS ON BOTH OF US, AND WILL INEVITABLY AFFECT ALGERIAN ATTITUDES TOWARDS US. FOR POLITICAL AND ENERGY RESOURCE REASONS WE SHOULD FOSTER THIS RELATIONSHIP OVER THE LONG TERM, TO THE CONFIDENTIAL

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EXTENT THAT IT COINCIDES WITH OUR GLOBAL INTERESTS. TWO AGENCIES IN PARTICULAR WILL PLAY A CRUCIAL ROLE IN THIS REGARD: THE FPC AND EXIM. WE SHOULD DECIDE NOW HOW MUCH LNG WE WANT TO BUY FROM THE ALGERIANS AND LET THEM KNOW. EXIM SHOULD ADOPT A MORE POSITIVE ATTTUDE THAN IT HAS DISPLAYED FOR THE PAST YEAR IF AMERICAN EXPORTERS ARE TO GET THE FULL BENEFIT OF THE MARKET POSSIBILITIES HERE. END SUMMARY.

2. VALEDICTORY MESSAGE: ECONOMIC - FOLLOWING IS MY

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VALEDICTORY ECONOMIC MESSAGE ON DEPARTURE FROM ALGIERS
AFTER TWO AND A HALF YEARS. IT HAS BEEN A DIFFICULT AND
FRUSTRATING PERIOD, YET ONE IN WHICH WE HAVE MADE PERCEPTIBLE
AND GRATIFYING PROGRESS IN THE NORMALIZATION OF OUR RELATIONS
WITH THIS REVOLUTIONARY STATE. THERE ARE OBVIOUS LIMITS
TO THE NORMALIZATION PROCESS, OF COURSE. AS LONG AS
ALGERIANS TAKE THEIR REVOLUTIONARY VOCATION SERIOUSLY,
AND WE DO NOT CONVERT TO A BROTHERLY SOCIALIST STATE, WE
WILL BE FAIR GAME IN THE LOCAL MEDIA, AND WILL FIND OURSELVES
AND THE ALGERIANS ON OPPOSITE SIDES OF MOST MULTILATERAL
ISSUES.

3. WE AND THE ALGERIANS ARE NEVERTHELESS APPROACHING A
STATE OF PARTIAL SYMBIOSIS WHICH WILL IMPOSE CONSTRANTS ON
BOTH OF US. WHATEVER WE AND ALGERIANS MAY SAY ABOUT
EACH OTHER PUBLICLY, AND WHATEVER OUR POLITICAL
QUARRELS, OUR ECONOMIC INTERESTS ARE BECOMING INEXTRIC-
ABLY LINKED. WE ARE THE LARGEST SINGLE CUSTOMER FOR
ALGERIAN OIL (ABOUT HALF MILLION B/D) AND ALGERIA IS AN
IMPORTANT MARKET FOR AMERIAN TECHNOLOGY AND PRODUCTS.
IT WILL BE EVEN MORE IMPORTANT IN THE FUTURE. MORE TO
THE POINT, WE ARE GOING TO BECOME PARTIALLY DEPENDENT
ON ALGERIAN LIQUEIFIED NATURAL GAS AS A SOURCE OF ENERGY,
AND THE ALGERIANS ARE GOING TO BECOME MORE DEPENDENT
ON OUR MARKET AS A MAJOR SOURCE OF REVENUE. ROUGHLY
HALF OF THEIR GROWING EXPORTS MAY EVENTUALLY BE HYDRO-
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CARBONS DESTINED FOR THE UNITED STATES.

4. THE DIMENSIONS OF OUR GAS RELATIONSHIP WILL OF
COURSE BE DETERMINED BY THE FPC'S DECISIONS ON THE
VARIOUS CONTRACTS SIGNED BY AMERICAN COMPANIES WITH
SONATRACH. IF ALL OF THEM ARE APPROVED, ABOUT 1.4
(OR 1.7 ACCORDING TO DEPARTMENT) TRILLION CUBIC FEET
OF ALGERIAN LNG WILL BE SHIPPED TO THE UNITED STATES
EACH YEAR. THIS VOLUNE WILL BE REACHED SOME TIME IN THE
MID-EIGHTIES AND IT WILL PRODUCE ENERGY ROUGHLY EQUAL
TO ALL OF THAT BEING PRODUCED BY NUCLEAR REACTORS IN
THE UNITED STATES TODAY. PUT OTHERWISE, ROUGHLY 20 PERCENT
OF THE HOMES ON THE EAST COAST WILL BE HEATED WITH
ALGERIAN LNG. THIS IS A SOBERING THOUGHT, PARTICULARLY
IN A WINTER LIKE THAT OF 1976-77.

5. IF, ON THE OTHER HAND, THE FPC APPROVES NO MORE
CONTRACTS AT ALL, WE ARE STILL SCHEDULED TO IMPORT,
UNDER THE EL PASO AND DISTRIGAS CONTRACTS, 0.4
TRILLION CUBIC FEET PER YEAR, ALMOST 30 PRCENT OF
THE POSSIBLE MAXIMUM. THIS GAS WILL START FLOWING
IN EARLY 1978; IT WILL HEAT ONLY ABOUT 5 PERCENT OF
THE HOMES ON THE EAST COAST BUT THIS WILL STILL BE
A SIGNIFICANT PROPORTION IN TIMES OF GAS PENURY

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SUCH AS WE ARE WITNESSING TODAY.

6. THIS RELATIONSHIP IS GOING TO BE COMFORTABLE
FOR NEITHER OF US. WE ARE GOING TO BE DEPENDENT ON
AN ARAB SOURCE FOR YET ANOTHER FORM OF ENERGY, AND
THE ALGERIANS ARE GOING TO BE EVEN MORE DEPENDENT ON
US. PROLONGED INTERRUPTION OF THE GAS FLOW WOULD
SEVERELY INCONVENIENCE MANY AMERICANS, BUT IT WOULD
DEAL A SERIOUS BLOW TO ALGERIAN ECONOMIC PLANS.
BOUMEDIENE IS FOND OF SAYING TO US THAT WE WILL BE AT
OPPOSITE ENDS OF A PIPELINE THE OPERATION OF WHICH
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WILL BE VITAL TO BOTH OF US. IT IS TO HIS CREDIT THAT
HE HAS NOT TRIED TO SOFTSOAP US WITH ASSURANCES
THAT THE FLOW WILL CONTINUE COME WHAT MAY, BECAUSE HE
WOULD NOT BE A FREE AGENT IN THE EVENT OF A REPEAT
OF THE 1973 WAR. NEVERTHELESS, I THINK WE CAN BE
CERTAIN THAT GAS FLOW IS NOT SOMETHING ALGERIANS
WILL INTERRUPT IDLY. IT WILL BE MORE IMPORTANT TO
THEM THAN IT WILL BE TO US, AND LNG IS NOT SOMETHING
WHICH CAN BE DIVERTED EASILY TO OTHER MARKETS AS
OIL CAN. THE SHIPPING AND REGASIFICATION FACILITIES
ARE TOO COMPLICATED AND TOO EXPENSIVE FOR PEOPLE TO
BUILD THEM ON THE SPECULATION THAT SOME TIME IN THE
FUTURE THEY MIGHT BECOME WINDFALL CUSTOMERS.

7. IN SHORT THEN, WE AND THE ALGERIANS ARE ALREADY
EMBARKED ON A COMMON VOYAGE. AS THE SCOPE OF OUR
ECONOMIC RELATIONSHIPS WIDEN AND THEIR INTENSITY
INCREASES, THERE WILL BE AN INEVITABLE (IF UNPREDICTABLE)
IMPACT ON ALGERIAN ATTITUDES. AT THIS MOMENT, FOR
INSTANCE, 1600 ALGERIANS ARE STUDYING IN THE UNITED
STATES (UP FROM 50 IN 1974) AND THIS NUMBER WILL
GO UP RATHER THAN DOWN. AT THE SAME TIME, AMERICANS
ARE TEACHING IN THREE TECHNICAL INSTITUTES IN ALGERIA,
ONE OF WHICH, THE ELECTRONICS INSTITUTE, IS SCHEDULED
TO BECOME AN INSTITUTION THE SIZE OF PRINCETON, WITH
A FACULTY OF 200 AMERICANS. THIS EDUCATIONAL EXPOSURE
CANNOT HELP BUT INFLUENCE THE ATTITUDES OF ALGERIAN
YOUTH,AND FREQUENTLY THEIR ELDERS, FOR BETTER OR WORSE.

8. OTHER DATA GIVE ADDITIONAL INSIGHT INTO THE
DIMENSIONS OF OUR CURRENT AND FUTURE INVOLVEMENT
IN ALGERIA. THERE ARE TODAY 70 AMERICAN COMPANIES
OPERATING HERE, AND BETWEEN THEM THEY HOLD OVER
$6 BILLION IN CONTRACTS TO CONSTRUCT, ADVISE AND
SUPPLY. THESE AND OTHER COMPANIES ARE ALSO IN-
TERESTED IN ANOTHER $10 BILLION WORTH OF CONTRACTS,
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AND WITH THE RATE OF ALGERIAN INVESTMENT (HALF OF ITS ANNUAL GDP OR $7 BILLION), THERE WILL BE EVEN MORE IN THE FUTURE. ONE MODEST EXAMPLE SHOWS THE SCALE OF OPPORTUNITIES: ALGERIA IS THE LARGEST SINGLE CUSTOMER FOR GE-DESIGNED GAS TURBINES. IT HAS BOUGHT 142 TO DATE, AT $3 MILLION EACH, AND IS PLANNING TO BUY ANOTHER 200. THIS DOES NOT SOUND LIKE MUCH WHEN COMPARED WITH SAUDI ARABIA OR IRAN, BUT GE THINKS OF THIS AS AN IMPORTANT MARKET AND SO DO MANY OF THE AMERICAN BUSINESSMEN I MET ON A RECENT SPEAKING TOUR ACROSS THE UNITED STATES.

9. THE MEANING OF THIS ECONOMIC RELATIONSHIP FOR OUR POLICY PROCESS SEEMS CLEAR TO ME. IN THE FIRST PLACE, WHILE WE HAVE LITTLE CHANCE OF CHANGING ALGERIAN POSITIONS ON POLITICAL QUESTIONS THROUGH DIRECT APPROACHES, OUR ECONOMIC RELATIONSHIP OFFERS THE PROSPECT OF EVENTUAL INFLUENCE ON ALGERIAN ATTITUDES; INDEED, IT HAS AFFECTED THEM TO SOME EXTENT ALREADY. BOTH FOR LONG-TERM POLITICAL REASONS AS WELL AS ENERGY RESOURCE REASONS, WE SHOULD ADOPT A STRATEGY OF FOSTERING THAT RELATIONSHIP TO THE EXTENT THAT IT ACCORDS WITH OUR GLOBAL INTERESTS. THERE ARE TWO INSTITUTIONS WHICH ARE PARTICULARLY IMPORTANT TO THIS STRATEGY: THE FPC AND EXIM. THEY, MORE THAN ANYTHING ELSE, DETERMINE THE LIMITS OF OUR RELATIONSHIP.

10. FPC: AS PART OF A COHERENT ENERGY POLICY, WE SHOULD DECIDE HOW MUCH ALGERIAN LNG WE WILL BUY, AND THEN LET THE ALGERIANS KNOW EVEN IF THIS REQUIRES NEW LEGISLATION. THE CONTINUED DELAY IS VERY IRRITATING TO THEM AND THEY DESERVE AN ANSWER. THEY CANNOT WAIT FOREVER FOR THE FPC TO MAKE UP ITS MIND (THE FPC APPROVAL PROCESS NOW TAKES A MINIMUM OF 20 MONTHS, BUT THE GAS INDUSTRY THINKS IT CONFIDENTIAL

COULD BE SHORTENED BY SIX MONTHS BY RESCHEDULING THE ENVIRONMENTAL HEARINGS TO THE END RATHER THAN THE MIDDLE OF THE PROCESS).

11. EXEIM: CONCURRENTLY, WE SHOULD RE-EXAMINE THE BASIC ASSUMPTIONS OF EXIM BANK POLICIES. S ITS EXPOSURE IN ALGERIA HAS INCREASED (IT NOW STANDS AT $800 MILLION), THAT INSTITUTION HAS BECOME PROGRESSIVELY MORE CONSERVATIVE IN ITS ATTITUDE TOWARD NEW LOANS. THIS IS UNDERSTANDABLE, BUT IT PUTS THE AMERICAN BUSINESSMAN AT AN UNFORTUNATE DISADVANTAGE IN COMPETING WITH HIS GERMAN AND JAPANESE RIVALS, WHO ENJOY A GREAT DEAL MORE SUPPORT FROM THEIR

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GOVERNMENTS THAN OUR FIRMS DO. THIS CAN MEAN THAT AN AMERICAN COMPANY GETS A MULTI-MILLION DOLLAR CONTRACT, BUT MOST OF THE BENEFIT GOES TO NON-AMERICAN SUPPLIERS. A CASE IN POINT IS THE PULLMAN-KELLOG CONTRACT FOR THE SECOND MAJOR LNG PLANT AT ARZEW. OF THE $1 BILLION COST, $730 MILLION IN ORDERS ARE NOWTOZRGRULED TO GO TO FOREIGN SUPPLIERS BECAUSE OF THE LACK OF AMERICAN FINANCING, A LACK TRACEABLE DIRECTLY TO THE CAUTIOUS ATTITUDE OF EXIM. AS I UNDERSTAND THE BANK'S CAUTION, IT STEMS (A) FROM CONCERN AT THE MAGNITUDE OF THE ALGERIAN FOREIGN DEBT AND OF EXIM'S EXPOSURE, AND (B) A DESIRE TO ASECT ALGERIAN ECONOMIC PERFORMANCE BY USING LOANS UB LEVERAGE TO IMPROVE THE ADMITTEDLY FRUSTRATING AND DIFFICULT CLIMATE IN WHICH FOREIGN COMPANIES MUST OPERATE.

12. IN STRIKING A BALANCE BETWEEN THESE CONCERNS AND OUR DESIRE TO STIMULATE EXPORTS TO A COUNTRY WITH WHICH WE NOW HAVE A UNFAVORABLE TRADE BALANCE, WE SHOULD KEEP IN MIND THAT COMPANIES WHICH GET IN ON THE GROUND FLOOR WITH OUR TECHNOLOGY AND FINANCIAL CONFIDENTIAL

SUPPORT ARE GOING TO BE IN A BETTER POSITION, PROVIDED THEY PERFORM WELL (WHICH IS BY NO MEANS ALWAYS THE CASE), TO GET SUBSEQUENT CONTRACTS. THIS MARKET IS STILL DEVELOPING AND IT SEEMS TO ME THAT A MORE FORWARD EXIM POLICY IS JUTIFIED BY THE NEEDS OF US BUSINESS AND THE REAL PROSPECT OF A QUANTUM JUMP IN ALGERIAN FOREIGN EXCHANGE EARNINGS WHEN THE LARGE LIQUEFACTION PLANTS COME ON STREAM.

13. SUPPORT FOR BUSINESS: FINALLY, WE SHOULD CONTINUE TO REGARD THE PRIMARY MISSION OF OUR EMBASSY IN ALGIERS AS BEING THE SUPPORT OF THE AMERICAN BUSINESS EFFORT. AS NOTED ABOVE, ALGERIA IS NOT AN EASY PLACE IN WHICH TO WORK. AMERICAN COMPANIES ARE NOT DISCRIMINATED AGAINST BUT ARE TREATED JUST LKI THE OTHERS. ALL OF THEM HAVE THE SAME PROBLEMS, SOMETIMES INSURMOUNTABLE, WITH CUSTOMS, EXIT PERMITS, LOCAL SUPPLY CONTRACTS, TAXATION AND GOVERNMENT RELATIONS IN GENERAL. WHILE OUR ABILITY TO HELP IS LIMITED BY THE PROBLEMS OF ACCESS, THE SITUATION HAS IMPROVED SINCE THE RESTORATION OF RELATIONS AND WE ARE IN A POSITION IN MANY INSTANCES TO INTERCEDE ON BEHALF OF THE AMERICAN BUSINESSMAN OR HIS EMPLOYEE, TO GIVE HIM COUNSEL, TO HELP HIM WITH CONTACTS AND TO PERFORM OTHER COMMERICAL SERVICES. THIS IS PERHAPS THE MOST POSITIVE SINGLE FUNCTION WE CAN SERCE IN ALGERIA, AND IF EVER WE NEEDED A PLACE TO LOOK FOR POSITIVE THINGS TO DO,

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ALGERIA IS IT.

14. MY POLITICAL OBSERVATIONS ARE IN A SEPARATE MESSAGE.

PARKER

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